

Message Text

UNCLASSIFIED

PAGE 01 OTTAWA 01652 01 OF 02 050102Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01
PA-02 SSO-00 INRE-00 NSCE-00 ICAE-00 /092 W
-----113427 050113Z /64

O 042048Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 6892
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC
AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS SECTION 01 OF 02 OTTAWA 01652

PARIS ALSO FOR USOECD
E.O. 11652:N/A
TAGS: EFIN, CA
SUBJECT: DEFENSE OF CANADIAN DOLLAR: BANK RATE, FOREIGN
CREDIT INCREASED, RESERVES DROP.

1. SUMMARY. FOLLOWING FALL OF CANADIAN DOLLAR BELOW 88
U.S. CENTS APRIL 3, BANK RATE WAS INCREASED TO 8.5 PERCENT
FROM 8.0 PERCENT AND GOC ANNOUNCED INCREASE IN STANDBY
CREDITS FROM CHARTERED BANKS BY U.S.DOLS 1 BILLION TO 2.5
BILLION. GOC ALSO ANNOUNCED IT HAD DRAWN DOWN U.S.DOLS
750 MILLION DURING MARCH FROM EXISTING 1.5 BILLION STANDBY
TO ADD TO FOREIGN EXCHANGE RESERVES. RESERVE FIGURES FOR
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 OTTAWA 01652 01 OF 02 050102Z

MARCH SHOW LOSS OF NEARLY U.S.DOLS 500 MILLION IN SUPPORT
OF SAGGING CANADIAN DOLLAR. BANK OF CANADA STATEMENT ACK-
NOWLEDGED THAT MONETARY POLICY "FOR THE TIME BEING" WILL
FOCUS ON EXCHANGE RATE AND FINANCE MINISTER CHRETIEN SAID
GOC WOULD BORROW MORE ABROAD IF NECESSARY TO SUPPORT THE
DOLLAR. END SUMMARY.

2. CANADIAN DOLLAR PLUNGED ON MONDAY, APRIL 3 IN GENERALLY TURBULENT MARKETS. IMMEDIATE CAUSES ATTRIBUTED TO LESS THAN EXPECTED TRADE SURPLUS FOR FEBRUARY (245 MILLION) ANNOUNCED FRIDAY AND FAILURE OF BANK OF CANADA TO RAISE BANK RATE OVER THE WEEKEND (SEE SEPTTEL FOR DETAILS). DOLLAR CLOSED APRIL 3 AT 87.96 U.S. CENTS, FIRST TIME IT HAS BEEN BELOW 88 CENTS IN 45 YEARS.

3. ALSO ON MONDAY BANK OF CANADA ANNOUNCED RESERVE FIGURES FOR MARCH, SHOWING GOC HAD LOST NEARLY ONE HALF BILLION U.S. DOLLARS IN INTERVENTIONS DURING THE MONTH AND HAD DRAWN DOWN U.S.DOLS 750 MILLION OF ITS THEN EXISTING U.S. DOLS 1.5 BILLION STANDBY CREDIT WITH CHARTERED BANKS FOR ADDITION TO ITS RESERVES.

4. EARLIER IN MARCH, BOC HAD ANNOUNCED IT WAS DRAWING DOWN U.S.DOLS 200 MILLION OF ITS STANDBY. FURTHER 550 MILLION HAD EVIDENTLY BEEN DRAWDOWN UNANNOUNCED. IN THE FUTURE (AS IN THIS INSTANCE) BOC WILL NOT ANNOUNCE DRAW DOWNS (OR REPAYMENTS) OF ITS STANDBY CREDIT DURING THE MONTH, BUT WILL ONLY STATE NET AMOUNT OF THE BORROWING OUTSTANDING CONTAINED IN ITS RESERVES WHEN MONTHLY RESERVE FIGURES ARE PUBLISHED. BOC ALSO ANNOUNCED LATE ON APRIL 3 THAT TOTAL AMOUNT OF ITS STANDBY HAD BEEN INCREASED BY U.S.DOLS ONE BILLION TO 2.5 BILLION.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 01652 01 OF 02 050102Z

5. WITH THE 750 MILLION U.S.DOLS ADDED TO RESERVES FROM THE STANDBY, THE TOTAL U.S. DOLLAR COMPONENT OF RESERVES ROSE 275.7 MILLION, INDICATING A LOSS DUE TO INTERVENTION OVER THE MONTH OF U.S. DOLLARS OF 474.3 MILLION. THERE WAS AN ADDITIONAL LOSS OF ABOUT 15 MILLION U.S. DOLLARS IN SDRS. (SEE SEPTTEL FOR DETAILS.)

6. PROCEEDS OF THE RECENT U.S.DOLS 75 MILLION BOND ISSUE BY GOC IN NEW YORK WILL BE RECEIVED APRIL 5, AND ARE THUS NOT REFLECTED IN THE MARCH RESERVE FIGURES.

7. WITH WIDELY FLUCTUATING CANADIAN DOLLAR LAST WEEK (SEE SEPTTEL) AND INTENSE DOWNWARD PRESSURE YESTERDAY PUSHING DOLLAR DOWN THROUGH LATEST PSYCHOLOGICAL BARRIER OF 88 U.S. CENTS, BOC GOVERNOR BOUEY LAST NIGHT (APRIL 3) ANNOUNCED INCREASE IN BANK (DISCOUNT) RATE BY ONE HALF PERCENT TO 8.5 PERCENT.

8. BOUEY'S ANNOUNCEMENT OF RATE INCREASE, SECOND WITHIN A MONTH, ACKNOWLEDGED FRANKLY THAT CANADIAN MONETARY POLICY NOW BEING FOCUSED ON EXCHANGE RATE. BOUEY'S STATEMENT BLAMED DOWNWARD PRESSURE ON TEMPORARY FACTORS SUCH AS

SEASONAL WEAKNESS IN THE CURRENT ACCOUNT (READ LARGE WINTER TRAVEL DEFICIT) AND A TEMPORARY LULL IN THE VOLUME OF FOREIGN BORROWING. POLICY STATEMENT READ IN PART "... (EXCHANGE RATE) ADJUSTMENT OVER TOO SHORT A PERIOD OF TIME WOULD NOT BE HELPFUL IN RESTORING CANADA'S INTERNATIONAL COMPETITIVE POSITION ON A DURABLE BASIS BECAUSE OF THE RISK THAT IT WOULD UNDERMINE THE SUBSTANTIAL PROGRESS CANADA HAS MADE TO DATE IN OVERCOMING INFLATION. FOR THE TIME BEING, THEREFORE, THE BANK WAS GIVING HIGH PRIORITY IN ITS CONDUCT OF MONETARY POLICY TO THE EXTERNAL VALUE OF THE CANADIAN DOLLAR."

9. GOC DETERMINATION TO DEFEND EXCHANGE RATE WAS UNDERLINED IN STATEMENT BY FINANCE MINISTER CHRETIEN. HE SAID UNCLASSIFIED

UNCLASSIFIED

PAGE 04 OTTAWA 01652 01 OF 02 050102Z

U.S.DOLS ONE BILLION EXPANSION OF THE CREDIT FACILITY WILL GIVE "ADDED ASSURANCE THAT THE GOVERNMENT WILL AT ALL TIMES BE IN A POSITION TO SUPPLEMENT THE NET INFLOWS OF CAPITAL TO CANADA," THAT RECENT BOND ISSUE IN NEW YORK WAS TO

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 OTTAWA 01652 02 OF 02 050103Z
ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 SS-15 STR-07 CEA-01
PA-02 SSO-00 INRE-00 NSCE-00 ICAE-00 /092 W
-----113445 050113Z /64

O 042048Z APR 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 6893
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMCONSUL CALGARY
AMCONSUL HALIFAX
AMCONSUL MONTREAL
AMCONSUL QUEBEC

AMCONSUL TORONTO
AMCONSUL VANCOUVER
AMCONSUL WINNIPEG

UNCLAS SECTION 02 OF 02 OTTAWA 01652

REPLENISH RESERVES USED TO SUPPORT THE CANADIAN DOLLAR, AND
THAT "THE GOVERNMENT WILL UNDERTAKE FURTHER FOREIGN BORROW-
ING TO THE EXTENT THAT MAY BE REQUIRED FOR THESE PURPOSES."
DUEMLING

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOLLAR, CREDIT, BANK RATES, BANK RESERVES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978OTTAWA01652
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780146-0180
Format: TEL
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780495/aaaadcsI.tel
Line Count: 180
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 01ab09b7-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 16 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3081911
Secure: OPEN
Status: NATIVE
Subject: DEFENSE OF CANADIAN DOLLAR: BANK RATE, FOREIGN CREDIT INCREASED, RESERVES DROP.
TAGS: EFIN, CA
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/01ab09b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014